IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO DIVISION OF FINANCIAL MANAGEMENT AUGUST 2001 VOLUME XXII NO. 2

What a difference a few months have made. Last winter, when the January 2001 *Idaho Economic Forecast* was being prepared, it appeared the U.S. economy would experience a mild slowdown followed by a speedy recovery. However, the economy's performance since then has been disappointing, which tilts the odds toward a more protracted slowdown. As a result, economic forecasts have generally grown more pessimistic since last winter.

The revised outlook for the U.S. economy can be seen in the different real GDP forecasts. In January this broad measure of the economy's health was expected to average 4.1% per year over the 2001-2004 period, which is very close to its potential. Real GDP is now projected to grow just 2.6% annually. Thus, instead of quickly returning to its long-term growth trend, the economy is projected to eke out sub-par increases over most of the forecast period. As a result of this slower growth, real GDP in 2004 is about two-thirds of a trillion dollars (or about 6%) lower than the January 2001 forecast.

The reduced expectations for real GDP largely reflects changes in consumer spending. This is no surprise given it is the largest component of GDP. In the current *Forecast,* real consumer spending is anticipated to advance 3% annually. Not bad, but noticeably lower than the previous forecast of 4.3%. The reduction partly reflects the dampened outlook for real disposable income. It should also be pointed out that though it is expected to expand slower than previously thought, real consumer spending should continue to grow. This is an important point because optimistic consumers are the last defense against a recession at this time.

The biggest disappointment has been real business investment. It had been a reliable growth engine for several years. For example, real business investment grew over 12% in 2000, helping real GDP post its strongest showing since 1984. In the January 2001 *Idaho Economic Forecast* real business investment growth was projected to slow to 6.2% this year, 5.1% next year, and then rise by 8.0% in 2003. However, the decline is now steeper than had been forecast earlier. The July 2001 *Forecast* shows real business investment stalling this year and shrinking slightly in 2002.

Idaho has felt the impacts of the business investment drought. Since the January 2001 *Forecast* was published, the list of companies announcing layoff reads like a who's-who of Idaho high-tech employers. These impacts are significant because not only is high tech the state's largest manufacturing sector, it has also been one of its fastest growing sectors. Last winter it was predicted that this sector's employment would grow an average of 7.3% per year. Given the reduced outlook for real business spending and local cutbacks, the July 2001 *Forecast* shows this sector averaging 5.7% annual growth. At this slower pace, this sector's 2004 job count should be 1,700 lower than had been forecast last winter.

Unfortunately, the reduced employment outlook will not be restricted to the Gem State's high-tech companies. In fact, every sector except for services has had its employment growth scaled back. Overall, total nonfarm employment in the current *Forecast* is lower than the January 2001 *Forecast* by 3,275 in 2001, 8,889 in 2002, 10,702 in 2003, and 9,668 in 2004. The dampened outlooks for proprietors' income and dividends, rent, and interest payments will hold down income gains. As a result, the current projection for 2001 Idaho real personal income is nearly $300 million lower than had been forecasted previously. This gap is expected to widen over time, so that it will be nearly a billion dollars lower in 2004.

Continued from Back

Turning to July revenue collections, the first month of FY 2002 was $1.2 million below the target. This is a variance of less than 1 percent from the predicted amount. Strength in the sales tax and miscellaneous receipts came close to offsetting weakness in the individual and corporate income taxes.

Individual income tax revenue was $2.2 million (3.3%) lower than expected in July. This weakness is due to a combination of lower than expected withholding collections and higher than expected refunds.

Corporate income tax revenue was $1.8 million (38%) below the predicted amount for July. Higher-than-expected refunds and lower-than-expected quarterly estimated payments were behind this modest shortfall.

Sales tax collections in July were $1.5 million (2.5%) higher than expected. While positive, approximately one-third of this is due to an unexpected accounting variance that will be reversed in August.

Product taxes were exactly on target in July.

Miscellaneous revenues were $1.3 million higher than expected. The strength was due to a combination of interest earnings, insurance premium tax, and a large unexpected agency transfer.

DIRK KEMPTHORNE, Governor

Division of Financial Management
700 W Jefferson, Room 122
PO Box 83720
Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED

Brian Whitlock, Administrator

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

PRSRT STD
U.S. POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720

General Fund Update

As of July 31, 2001

Revenue Source	FY02 Executive Estimate[3] ($ Millions)	DFM Predicted To Date ($ Millions)	Actual Accrued To Date ($ Millions)
Individual Income Tax	973.1	66.1	63.9
Corporate Income Tax	102.5	4.7	2.9
Sales Tax	666.6	59.2	60.7
Product Taxes[1]	20.4	1.8	1.8
Miscellaneous	112.4	8.5	9.8
TOTAL GENERAL FUND[2]	**1875.0**	**140.3**	**139.1**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2001

The General Fund revenue forecast for FY 2002 has been revised downward to $1,875.0 million, a decrease of $167.5 million from the forecast released in January 2001. This reduction is the result of three factors. First, actual revenues for FY 2001 were $15.2 million lower than forecast eight months ago, thereby yielding a lower FY 2001 base. Second, deteriorating economic conditions for both Idaho and the nation have cut about two percentage points from the FY 2002 General Fund revenue growth rate. Finally, tax relief measures enacted during the last legislative session trimmed over $100 million from FY 2002 base revenues.

The revised FY 2002 revenue forecast projects a decline of 5.5% from FY 2001 actual revenues. The January 2001 forecast projected 2.1% growth for FY 2002. Two unusual factors make a direct comparison between FY 2002 and prior fiscal years invalid. First, FY 2001 includes an extraordinary amount of one-time revenue that has the effect of increasing the growth rate of FY 2001 and decreasing the growth rate of FY 2002. Second, Idaho's legislature enacted substantial tax relief that takes effect in FY 2002, thereby taking over five percentage points of growth from FY 2002 revenue.

FY 2001 actual revenue growth was 8.9%. Without an estimated $63 million of one-time revenue in FY 2001, the FY 2001 growth rate would have been 5.5%. Likewise, without that one-time revenue in FY 2001, the projected revenue growth rate for FY 2002 (before factoring in law changes) would be 3.1%. Allowing for the impact of nonrecurring FY 2001 one-time receipts reduces the growth rate for FY 2002 to minus 0.1%. This is the growth rate most directly comparable to last January's FY 2002 revenue forecast of 2.1% growth. The difference is due to the deterioration in economic conditions over the past eight months.

A larger adjustment to FY 2002 revenue growth is required to reflect the impact of law changes enacted during the last legislative session. A revenue reduction of $106.9 million in FY 2002 is the estimated net impact of all law changes, with income tax relief (both individual and corporate) accounting for the lion's share of the adjustment. Factoring this into the FY 2002 revenue forecast brings the growth rate down by an additional 5.4 percentage points to the current forecasted growth rate of minus 5.5%.

Continued on Front